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Kraft INC

Fourth Quarter Interim Report

To Our Stockholders:

It is a pleasure to inform you that your company achieved record sales and earnings for the year 1978. The earnings increase of 19 percent consisted of 12 percent attributable to operations and 7 percent to foreign currency translation.

Our 1978 worldwide sales were $5.670 billion, up 8.2 percent, and net earnings were $184 million. Earnings per share were $6.57, or $1.06 higher than 1977. Earnings per dollar of sales were 3.2¢ in 1978, compared to 2.9¢ in 1977.

Fourth quarter sales were $1.448 billion, up 6.5 percent over the fourth quarter of 1977, and net earnings were $43.7 million, up 26 percent over the same period last year. Earnings per share were $1.56, compared to $1.24 last year, while earnings per dollar of sales were 3.0¢, compared to 2.5¢ in 1977.

Significant improvements in operating profit in the U.S., International and Canada contributed to this increase in earnings for the year. Also, sales and net earnings were higher in each area, with both International and Canadian earnings benefiting from favorable currency translation and lower effective tax rates. Sales tonnage in 1978 for all major product categories exceeded 1977 after adjusting for the extra week in 1977. Total sales tonnage for 1978 was slightly ahead of last year.

In the processed foods category, sales tonnage and margins for cheese, margarine, barbecue sauce, prepared dinners, vegetable oil and shortening increased in both the fourth quarter and full year. Cheese sales tonnage rose even though declines resulted from the continuing transition to a direct distribution system in some Foodservice Division markets and reduced low-margin, government bid business. Margins for salad dressing products were greater in both periods and sales tonnage was up for continued items.

Among the Dairy Group products, fluid milk, ice cream and yogurt showed increased sales tonnage for the year. However, profitability continued to be lower in both periods due to higher costs, primarily distribution expense and costs associated with expansion of several products into new markets.

In the nonfood products category, sales tonnage and profitability increased in both the fourth quarter and the full year. Significant improvements in packaging operations were partially offset by weakness in the specialty chemical business.

Currency translation increased earnings 12¢ per share, compared to a decrease of 23¢ for the full year of 1977. For the fourth quarter, currency translation decreased earnings 1¢ per share, compared to a decrease of 13¢ per share in 1977.

The improvement in earnings to 3.2¢ per dollar of sales was possible because of stringent programs for cost control and productivity increases that continue to receive heavy emphasis. These programs, coupled with the well-earned reputation and demand for the company's products, position Kraft well for further growth in 1979.

The company is in compliance with the Administration's voluntary anti-inflation program and intends to continue its cooperation. However, we remain concerned about the impact of government programs on the cost of food production resulting in higher food prices to the consumer.

On February 1, your Board of Directors declared a quarterly dividend of 70¢ per share, payable March 10 to stockholders of record at the close of business February 16. This is the 221st consecutive quarterly dividend paid since your company's founding. The quarterly dividend was raised by 5¢ per share, or 7.7 percent, on November 2, 1978.

William O. Beers

William O. Beers
Chairman of the Board and
Chief Executive Officer

Executive Transition Announced

(l. to r.) John M. Richman, Arthur W. Woelfle, Donald W. Carlin *(standing)*, William O. Beers.

During its regular monthly meeting on February 1, the Board of Directors of Kraft, Inc. elected John M. Richman deputy chairman and a director of the corporation. According to Chairman William O. Beers, "the Board has designated John Richman to succeed me as chairman and chief executive officer upon my retirement June 1." Mr. Beers will remain a director of the company. Arthur W. Woelfle continues as president and chief operating officer, and Donald W. Carlin was named senior vice president and general counsel.

Mr. Richman, 51, has served as senior vice president of administra-

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Condensed Consolidated Statement of Income

(Figures in thousands except per share)

Kraft, Inc. and Subsidiaries

	52 Weeks Ended Dec. 30, 1978	53 Weeks Ended Dec. 31, 1977	% Increase (Decrease)	13 Weeks Ended Dec. 30, 1978	14 Weeks Ended Dec. 31, 1977	% Increase (Decrease)
Net sales	**$5,669,872**	$5,238,807	8.2	**$1,447,646**	$1,359,473	6.5
Earnings before income taxes	**$ 351,315**	$ 302,515	16.1	**$ 82,889**	$ 68,519	21.0
Provision for taxes on income	**167,314**	148,400	12.7	**39,201**	33,975	15.4
Net income for the period	**$ 184,001**	$ 154,115	19.4	**$ 43,688**	$ 34,544	26.4
Earnings per common & common equivalent share	**$ 6.57**	$ 5.51		**$ 1.56**	$ 1.24	
Average number of common & common equivalent shares	**28,001**	27,969		**28,001**	27,969	
Investment tax credit	**$ 6,634**	$ 4,100		**$ 1,659**	$ 555	
Per share	**.24**	.14		**.06**	.02	
Translation gain (loss) on balance sheet accounts	**$ (.39)**	$ (.30)		**$ (.29)**	$ (.31)	
Cost of sales decrease (increase) from translation at historical rates vs rates in effect at time of sale	**.51**	.07		**.28**	.18	
Net effect per share	**$ .12**	$ (.23)		**$ (.01)**	$ (.13)	

tion since 1975 and as general counsel since 1970. "In both capacities and as a member of Kraft's management policy committee, John Richman has participated in corporate strategy and planning at the highest level," Mr. Beers said.

"During 25 years, John has worked effectively in our domestic and Canadian dairy operations and as a member of corporate management. In this time, he has acquired an extensive knowledge of our company, the food industry, and of the worldwide business environment in which Kraft must operate. In addition, he has directed a number of special assignments with distinction, including a major organization study and analysis of the company.

"Furthermore," Mr. Beers continued, "as senior vice president of administration, with responsibility for human resources, he knows Kraft people throughout the organization and is familiar with their talents, their capabilities and their aspirations."

A native of New York City, Mr. Richman received his B.A. degree from Yale University and his LL.B. degree from Harvard Law School.

Regarding the operational aspect of Kraft's top management, Mr. Beers said, "Bud Woelfle and the executives who direct our various operations are a close-knit and resourceful team, as Kraft's strong operating performance in recent years will attest." Since joining Kraft in 1955, Mr. Woelfle, 58, has held significant marketing and management positions and has had extensive experience as an international executive. Prior to becoming president in 1973, he headed Kraft's operations in West Germany, the United Kingdom and Scandinavia.

Born in Dunkirk, N.Y., Mr. Woelfle graduated with honors in accounting and economics from the University of Buffalo. He has done considerable postgraduate study both in the United States and Europe.

Mr. Carlin, 44, has served as vice president and assistant general counsel since 1974. "He has directed our legal activities both on a broad scale and in certain specific areas including food and drug law, patents, trademarks, environmental matters and general contracts," Mr. Beers commented.

A former partner in the Chicago law firm of Fitch, Even & Tabin, Mr. Carlin joined Kraft in 1972. He received his B.S. degree from the University of Notre Dame and his LL.B. degree from the University of Michigan, and he recently completed the Advanced Management Program at Harvard University Graduate School of Business Administration. He is a native of Gary, Ind.

Mr. Beers, 64, joined Kraft in 1937 as a food technologist. He was elected president and chief operating officer in 1968 and became chairman and chief executive officer in 1972. As chairman, he has led Kraft through a seven-year period of growth and reorganization in which sales increased from $3.0 billion to $5.7 billion, and earnings rose from $91.3 million to $184 million.

Condensed Consolidated Balance Sheet

(In thousands)

Kraft, Inc. and Subsidiaries

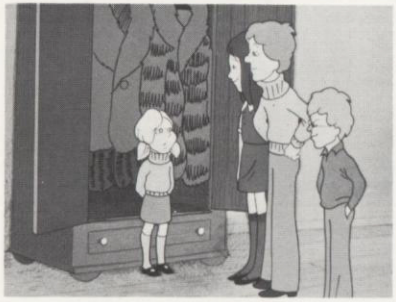
Assets	Dec. 30, 1978	Dec. 31, 1977
Cash and temporary investments	$ 186,409	$ 210,372
Notes and accounts receivable, less allowance	374,567	342,019
Inventories	933,047	774,177
Total current assets	$1,494,023	$1,326,568
Property, at cost, less depreciation	643,357	612,992
Other non-current assets	163,511	145,801
	$2,300,891	$2,085,361

Liabilities and Stockholders' Equity		
Accounts and drafts payable and accrued liabilities	$ 466,120	$ 377,924
Short-term borrowings	109,569	97,367
Federal and foreign taxes on income	87,088	71,791
Current portion long-term debt	4,339	3,348
Total current liabilities	$ 667,116	$ 550,430
Long-term debt	306,452	344,133
Other non-current liabilities	109,244	84,216
Stockholders' equity	1,218,079	1,106,582
	$2,300,891	$2,085,361

C. S. Lewis Classic Set for April

The animated film version of C. S. Lewis' classic story "The Lion, The Witch and The Wardrobe," sponsored by Kraft, will be presented in two one-hour programs at 8 p.m. (EST) on April 1 and 2 on CBS-TV. These telecasts, produced for Kraft by the Children's Television Workshop (CTW) are in keeping with Kraft's commitment to provide quality prime-time programming suitable for family viewing. CTW also produces the award-winning children's series, "Sesame Street" and "The Electric Company."

The book is the first of Lewis' seven classic stories known as *The Chronicles of Narnia.* It is an allegory which dramatizes time-honored values of loyalty, courage, truthfulness, compassion and responsibility. Children love the fantasy and adventure of the Lewis stories, while adults are drawn to their deeper philosophical qualities. The appeal of "Narnia" extends to all age groups.



Lucy tells Susan, Peter and Edmund of her passage through the Wardrobe to Narnia.

During the broadcasts, Kraft will preview a new commercial featuring several employees. The two-minute commercial emphasizes the importance of name identification by consumers when they buy products and stresses the quality that goes into each product carrying the *Kraft* name. Several sequences showing employees on the job were shot at the Research and Development Center in Glenview, Ill. Food commercials will feature children and adults preparing dishes at home.

In conjunction with the Special, Kraft is offering a teaching kit to teachers who request it. Elementary and secondary-level language arts and reading supervisors were surveyed to determine the type of materials that would best help young people gain a greater appreciation for the works of C. S. Lewis.

In addition, Kraft is working with the highly successful CBS-TV Reading Program to extend educational benefits of the televised classic. This program is designed to improve students' reading skills by providing scripts of selected television specials — usually printed in local newspapers — for study before and after the telecast under teacher and parental supervision.

Nutrition Advisory Council

Kraft's Nutrition Advisory Council, a panel of independent experts from around the country whose responsibility is to evaluate and make recommendations about Kraft policies, products and programs in regard to nutrition, is continuing to expand its knowledge of the company.

The Council is becoming acquainted firsthand with Kraft's Research and Development activities, product lines, production facilities and various communications programs, such as "The Consumer's Right to Know." The nine-member group works closely with Kraft's Nutrition Task Force, a team of senior management personnel charged with the task of reviewing appropriate activities throughout the company and making recommendations to assure continued compliance with its nutrition policy as new scientific information becomes available.

The Council members meet formally twice yearly and are available as consultants to Kraft on specific matters throughout the interim periods. Events and issues such as the recent food labeling hearings sponsored jointly by several federal agencies, sodium and potassium research, as well as proposed government regulations on cheese and cheese products, are being reviewed by the Council.

Members of the Nutrition Advisory Council led by chairman Helen Guthrie, Ph.D., Nutrition, Pennsylvania State University, are: Roslyn Alfin-Slater, Ph.D., Environmental and Nutritional Science, University of California; James Austin, Ph.D., Nutrition and Policy Planning, Harvard University Graduate School; James Carter, M.D., Nutrition, Tulane University; Fergus Clydesdale, Ph.D., Food Science and Nutrition, University of Massachusetts; Alfred Harper, Ph.D., Nutritional Science and Biochemistry, University of Wisconsin; Herbert Langford, M.D., Medicine, University of Mississippi Medical Center; Irwin Rosenberg, M.D., Medicine, University of Chicago Medical School; and James Turner, J.D., attorney.